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January 20, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, Massachusetts 02110

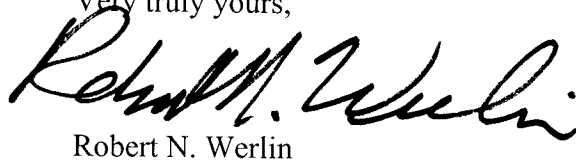
Re: D.T.E. 03-88A, 03-88B and 03-88C, Boston Edison Company, Cambridge
Electric Light Company, Commonwealth Electric Company, Costs To Be
Included in Default Service Rates

Dear Secretary Cottrell:

In accordance with the order of the Department of Telecommunications and Energy on November 17, 2003, Boston Edison Company, Commonwealth Electric Company and Cambridge Electric Light Company hereby file their wholesale-related and direct retail-related default service costs, with corresponding adjustments to default service and distribution rates. The calculations are explained in Exhibit NSTAR-HCL, the direct testimony of Henry C. LaMontagne, and three supporting exhibits, Exhibits NSTAR-HCL-1, NSTAR-HCL-2 and NSTAR-HCL-3.

Thank you for your attention to this matter.

Very truly yours,



Robert N. Werlin

Enclosures

**BOSTON EDISON COMPANY
CAMBRIDGE ELECTRIC LIGHT COMPANY
COMMONWEALTH ELECTRIC COMPANY
d/b/a NSTAR ELECTRIC**

Direct Testimony of Henry C. LaMontagne

Exhibit NSTAR-HCL

D.T.E. 03-88A, D.T.E. 03-88B and D.T.E. 03-88C

1 **Q. Please state your name and business address.**

2 A. My name is Henry C. LaMontagne. My business address is One NSTAR Way,
3 Westwood, Massachusetts 02090-9230.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Director of Regulatory Policy and Rates for the regulated operating companies of
6 NSTAR. In this capacity, I am responsible for pricing and rate design activities for Boston
7 Edison Company (“Boston Edison”), Cambridge Electric Light Company (“Cambridge”)
8 and Commonwealth Electric Company (“Commonwealth”) (collectively, “NSTAR
9 Electric” or the “Company”).

10 **Q. Please describe your education and professional background.**

11 A. I graduated from the University of Massachusetts - Dartmouth in 1968 with a Bachelor of
12 Science degree in Electrical Engineering. Upon graduation, I served two years of military
13 duty, after which I joined the Engineering Department of COM/Energy Services
14 Companies (“COM/Energy”) in October 1970. In March 1973, I became a Rate Analyst
15 with the Rate Department of COM/Energy where my primary responsibilities were to assist
16 in the formulation and administration of gas and electric tariffs and special contracts for the

1 operating subsidiaries of the Commonwealth Energy System. Since then, I have held
2 various positions in the Rate Department progressing to Manager – Rate Design in March
3 1987. I held that position in the Commonwealth Energy System until its merger with BEC
4 Energy was consummated in August 1999, whereupon I was named to my present
5 position.

6 **Q. Please describe your present responsibilities.**

7 A. As Director of Regulatory Policy and Rates, I am responsible for directing the preparation
8 and design of rate schedules and the pricing of special contracts for NSTAR. In addition, I
9 am responsible for directing the preparation of embedded and marginal cost allocation
10 studies and other special cost studies as required to support the pricing and rate design
11 function.

12 **Q. Have you previously testified in any formal hearings before regulatory bodies?**

13 A. Yes, I have presented testimony before the Department of Telecommunications and Energy
14 (the “Department”) and the Federal Energy Regulatory Commission (“FERC”) on
15 numerous occasions. I have most recently presented testimony before the Department on
16 behalf of NSTAR Electric in D.T.E. 03-117 and D.T.E. 03-118, NSTAR Electric’s most
17 recent Transition Charge Reconciliation proceedings. In addition, I have presented
18 testimony before the FERC concerning transmission service to the Town of Belmont, in
19 FERC Docket Nos. ER94-1409 and EL94-88.

1 **Q. What is the purpose of your testimony?**

2 A. On November 17, 2003, the Department issued an order in D.T.E. 03-88 in which it
3 required all electric distribution companies to submit a filing that identifies certain costs
4 associated with providing default service to customers and proposes corresponding rate
5 adjustments. My testimony will describe NSTAR Electric's calculation of those costs and
6 rate adjustments.

7 **Q. What exhibits are you sponsoring in your testimony?**

8 A. I am sponsoring three exhibits in addition to this testimony, Exhibit NSTAR-HCL. Exhibit
9 NSTAR-HCL-1 computes the costs to be included in default service rates and the
10 corresponding rate adjustments for default service and distribution service in accordance
11 with the Department's requirements. Exhibit NSTAR-HCL-2 shows the underlying
12 calculation of the bad-debt and energy-label components of the costs. Exhibit
13 NSTAR-HCL-3 provides the details for the calculation of the solicitation, administration
14 and RPS costs. I will explain how each of these exhibits complies with the Department's
15 directives in D.T.E. 03-88.

16 **Q. What is your understanding of the Department's requirements in this proceeding?**

17 A. In its November 17, 2003 order opening this proceeding, the Department stated that this
18 case was designed to implement past Department rulings with regard to costs that should
19 be included in default service rates. The Department stated that it had previously identified

1 such cost components in D.T.E. 02-40B.

2 **Q. What costs did the Department state are to be included in default service rates?**

3 A. The Department identified two categories of costs that are to be included in default service
4 rates: (a) wholesale costs; and (b) direct retail costs.

5 **Q. What are wholesale costs?**

6 A. The Department stated that wholesale costs relate to the costs of procuring default service
7 supplies, including the administrative costs associated with designing and implementing
8 competitive solicitations, evaluation of bids, executing contracts, etc.

9 **Q. What are direct retail costs?**

10 A. The Department defined direct retail costs as those costs incurred on behalf of default-
11 service customers associated with: (a) unrecovered bad debt; and (b) compliance with
12 regulatory requirements, i.e., communications with default service customers pursuant to
13 220 C.M.R. § 11.06; and (c) compliance with the Massachusetts Renewable Energy
14 Portfolio Standard, 225 C.M.R. § 14.00 et seq. ("RPS").

15 **Q. Have you computed these wholesale and direct retail costs for NSTAR Electric?**

16 A. Yes. Exhibit NSTAR-HCL-1 shows each of these cost components.

17 **Q. Please explain the calculation of wholesale costs.**

18 A. In order to minimize administrative costs, NSTAR Electric issues a single solicitation for
19 default service supplies for its three distribution companies. Bidders are required to

1 provide separate bids for each company and each rate category, but one solicitation is
2 performed for all of NSTAR Electric. Accordingly, I first determined the total annual costs
3 for solicitation and administration and then allocated those costs to the three distribution
4 companies.

5 **Q. What are the components of your wholesale-cost calculation?**

6 A. Wholesale costs are composed of two components: solicitation and administration.
7 Solicitation involves contract review, contract negotiations, data services, regulatory
8 support, analysis and legal support for the review and regulatory approvals of default
9 service rates.

10 **Q. How have you determined the annual wholesale costs for default service?**

11 A. The details of the calculation are set forth on Exhibit NSTAR-HCL-3. I conferred with
12 NSTAR personnel responsible for soliciting and administering the default-service contracts
13 and requested that, based on their experience in 2003, they provide the number of hours
14 devoted to each activity. I also asked them to adjust the hours to account for the fact that
15 in the future, the Company will perform four solicitations, instead of the two solicitations
16 issued in 2003. The number of hours for each activity was multiplied by the average labor
17 cost for the personnel involved to determine the labor cost. The Company's labor
18 overhead rate of 74 percent was then applied to compute the total labor costs. Outside
19 legal expenses relating to the review of the solicitation process and regulatory approvals of

1 the rates was added to the total and included in the solicitation component. As indicated in
2 Exhibit NSTAR-HCL-1, the total wholesale cost for NSTAR Electric's default service is
3 computed to be \$144,715.

4 **Q. How is this amount allocated among the three companies?**

5 A. The total NSTAR Electric wholesale costs are allocated in proportion to the total revenues
6 collected from customers receiving default service in 2003 for Boston Edison, Cambridge
7 and Commonwealth, respectively. The derivation of the allocation is set forth in Exhibit
8 NSTAR-HCL-1 in the row marked as Allocation Factors, DS Revenues.

9 **Q. How have you determined the annual direct retail costs for default service?**

10 A. As I indicated, there are three components of direct retail costs: bad debt, customer
11 communications and RPS costs.

12 **Q. How is the bad-debt component computed?**

13 A. The Company's billing and accounting systems do not directly isolate the amount of bad
14 debt associated with customers taking default service. Therefore, for each of the three
15 distribution companies, I determined the total 2003 annual net write-offs and allocated that
16 amount to default service generation by the proportion of: (1) revenues received for the
17 generation portion of default service to (2) total retail revenues for the distribution company.
18 The calculations are set forth in Exhibit NSTAR-HCL-2 and the amounts are brought
19 forward to Exhibit NSTAR-HCL-1.

1 **Q. How is the customer communications component computed?**

2 A. The costs associated with NSTAR Electric's customer-communications requirements
3 pursuant to 220 C.M.R. § 11.06 are not accounted separately for default-service
4 customers. Accordingly, the total costs for the informational pamphlets of \$94,922 was
5 allocated to default service customers in proportion to the total number of pamphlets
6 distributed to NSTAR Electric customers taking generation service from NSTAR Electric.
7 The allocation calculation is set forth in Exhibit NSTAR-HCL-2.

8 **Q. How are the RPS costs calculated?**

9 A. The bulk of the default service costs relating to RPS are already included in default service
10 rates because they are born by the supplier(s) and included in the cost of the electricity. In
11 addition, there is a small amount of administrative costs incurred by the Company to
12 monitor the program. Based on 2003 experience, as adjusted by the increase in the
13 number of solicitations beginning in 2004, the annual number of labor hours was developed.
14 Exhibit NSTAR-HCL-3 shows the total hours, which are multiplied by the appropriate
15 labor rate and "grossed up" by the labor overhead to compute the total cost.

16 **Q. How do you propose that these costs be included in rates?**

17 A. In Exhibit NSTAR-HCL-1, I have developed an average per-kilowatthour ("kWh")
18 charge that would be added to the price of default service by taking the total level of costs
19 for each distribution company and dividing that amount by the total kWhs sold to default

1 service customers for each distribution company. NSTAR Electric proposes that,
2 consistent with Department precedent of fixing the level of costs (cited in the Department's
3 order in D.T.E. 03-88, at 5), the amount of the added costs would be included in the total
4 projected recoverable cost amount in developing the default service rate. During the
5 reconciliation process, any changes in projected sales would be reconciled, but there would
6 be no reconciliation with actual costs incurred. In that way, a total of \$2,975,152 of costs
7 would be included in default service rates (at least until changed in a base rate proceeding).
8 Using 2003 default service sales, the rate increase for default service would be \$0.00056
9 per kWh for Boston Edison, \$0.00040 per kWh for Commonwealth and \$0.00021 per
10 kWh for Cambridge. The actual rate impact in the future will depend on the projected level
11 of default service sales.

12 **Q. What is your proposal to adjust base rates?**

13 A. Although neither the concept of default service, nor the incurrence of costs relating to
14 default service existed when base rates were established for NSTAR Electric, the
15 Company proposes to reduce base rates by the same level of costs that are identified for
16 collection in default service rates. Thus, the Company proposes to reduce base rates for
17 each of its distribution companies by the same \$2,975,152 in total costs. This is computed
18 in Exhibit NSTAR-HCL-1 by taking each distribution company's share of the total costs
19 and dividing that amount by that company's 2003 distribution sales in kWh. The base rate

1 decreases are \$0.00017 per kWh for Boston Edison, \$0.00006 per kWh for
2 Commonwealth and \$0.0006 per kWh for Cambridge. The base-rate reduction is smaller
3 than the default service increase because the same level of costs is being spread over a
4 larger sales base.

5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**

NSTAR ELECTRIC

D.T.E. 03-88A, D.T.E. 03-88B, D.T.E. 03-88C

Year 2003

Wholesale Costs to be included with Default Service (1)

<u>Description</u>	<u>Total</u>	<u>Boston Edison</u>	<u>Commonwealth</u>	<u>Cambridge</u>
Solicitation	\$ 132,470	\$ 106,966	\$ 14,466	\$ 11,038
Administration	\$ 12,244	\$ 9,887	\$ 1,337	\$ 1,020
Total	\$ 144,715	\$ 116,853	\$ 15,803	\$ 12,059

Direct Retail Costs to be included with Default Service

<u>Description</u>	<u>Total</u>	<u>Boston Edison</u>	<u>Commonwealth</u>	<u>Cambridge</u>
Bad Debt(2)	\$ 2,800,061	\$ 2,464,603	\$ 243,568	\$ 91,890
Cust Communications(3)	\$ 26,779	\$ 20,722	\$ 3,985	\$ 2,072
RPS Costs(1)	\$ 3,597	\$ 2,904	\$ 393	\$ 300
Total	\$ 2,830,437	\$ 2,488,229	\$ 247,946	\$ 94,262

Total Costs	\$ 2,975,152	\$ 2,605,082	\$ 263,749	\$ 106,321
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DS - mWh	5,773,450.8	4,613,960.1	660,148	499,343
DS - Adjustment	\$ 0.00052	\$ 0.00056	\$ 0.00040	\$ 0.00021

Total - mWh	20,858,549.9	14,988,130.4	4,171,393.2	1,699,026.3
Distribution Adj.	\$ 0.00014	\$ 0.00017	\$ 0.00006	\$ 0.00006

Allocation Factors

DS Revenue	\$ 333,787,643	\$ 269,524,659	\$ 36,449,423	\$ 27,813,561
DS Pamphlets	1,344,000	1,040,000	200,000	104,000

(1) NSTAR total costs allocated to individual company in proportion to company DS revenue.

(2) Reflects net write-offs. See Exhibit NSTAR-HCL-2.

(3) Costs allocated in proportion to the number of pamphlets distributed.

NSTAR ELECTRIC

D.T.E. 03-88A, D.T.E. 03-88B, D.T.E. 03-88C
Year 2003

Boston Edison - Bad Debt Allocation

<u>Service Type</u>	<u>mWh</u>	<u>Percent</u>	<u>Revenue</u>	<u>Percent</u>	<u>Bad Debt(1)</u>	<u>\$/kWh</u>
Default	4,613,960.1	30.8%	\$ 269,524,659	17.0%	\$ 2,464,603	\$ 0.00053
Standard Offer	7,168,733.3	47.8%	\$ 376,292,748	23.8%	\$ 3,440,918	\$ 0.00048
Competitive	3,205,437.0	21.4%	\$ -	0.0%	\$ -	\$ -
<u>Delivery</u>		<u>0.0%</u>	<u>\$ 936,376,456</u>	<u>59.2%</u>	<u>\$ 8,562,467</u>	
Total	14,988,130.4	100.0%	\$ 1,582,193,863	100.0%	\$ 14,467,987	\$ 0.00097

Commonwealth Electric - Bad Debt Allocation

<u>Service Type</u>	<u>mWh</u>	<u>Percent</u>	<u>Revenue</u>	<u>Percent</u>	<u>Bad Debt(1)</u>	<u>\$/kWh</u>
Default	660,147.8	15.8%	\$ 36,449,423	7.7%	\$ 243,568	\$ 0.00037
Standard Offer	2,559,102.8	61.3%	\$ 137,363,495	29.1%	\$ 917,912	\$ 0.00036
Competitive	952,142.6	22.8%	\$ -	0.0%	\$ -	\$ -
<u>Delivery</u>		<u>0.0%</u>	<u>\$ 298,159,553</u>	<u>63.2%</u>	<u>\$ 1,992,408</u>	
Total	4,171,393.2	100.0%	\$ 471,972,471	100.0%	\$ 3,153,888	\$ 0.00076

Cambridge Electric - Bad Debt Allocation

<u>Service Type</u>	<u>mWh</u>	<u>Percent</u>	<u>Revenue</u>	<u>Percent</u>	<u>Bad Debt(1)</u>	<u>\$/kWh</u>
Default	499,342.9	29.4%	\$ 27,813,561	19.1%	\$ 91,890	\$ 0.00018
Standard Offer	1,021,736.2	60.1%	\$ 52,004,686	35.8%	\$ 171,812	\$ 0.00017
Competitive	177,947.2	10.5%	\$ -	0.0%	\$ -	\$ -
<u>Delivery</u>		<u>0.0%</u>	<u>\$ 65,576,464</u>	<u>45.1%</u>	<u>\$ 216,651</u>	
Total	1,699,026.3	100.0%	\$ 145,394,711	100.0%	\$ 480,353	\$ 0.00028

Note 1: Allocated to DS in proportion to ratio of DS revenue to Total revenue.

Energy Label Allocation

Company	Quarterly Pamphlet Distribution						Allocated
	March	June	September	December	Total	% of Total	Cost
BE-SOS	515,000	515,000	515,000	515,000	2,060,000	43.24%	\$ 41,045.20
BE-DS	260,000	260,000	260,000	260,000	1,040,000	21.83%	\$ 20,721.85
COM-SOS	305,000	305,000	305,000	305,000	1,220,000	25.61%	\$ 24,308.32
COM-DS	50,000	50,000	50,000	50,000	200,000	4.20%	\$ 3,984.97
CAM-SOS	35,000	35,000	35,000	35,000	140,000	2.94%	\$ 2,789.48
CAM-DS	26,000	26,000	26,000	26,000	104,000	2.18%	\$ 2,072.18
TOT	1,191,000	1,191,000	1,191,000	1,191,000	4,764,000	100.00%	\$ 94,922.00

NSTAR ELECTRIC

D.T.E. 03-88A, D.T.E. 03-88B, D.T.E. 03-88C
Year 2003

<u>Solicitation</u>	<u>Contract Review</u>	<u>Contract Negotiations</u>	<u>Data Services</u>	<u>Regulatory</u>	<u>Analysis</u>	<u>Total</u>
1 Average Labor Cost per Hour	\$ 51.68	\$ 54.62	\$ 43.40	\$ 54.62	\$ 30.29	\$ 51.57
2 Annual Hours	412	360	20	180	72	1,044
3 Cost of Labor	\$ 21,292	\$ 19,663	\$ 868	\$ 9,832	\$ 2,181	\$ 53,836
4 <u>Labor Overheads @ 74%</u>	<u>\$ 15,756</u>	<u>\$ 14,551</u>	<u>\$ 642</u>	<u>\$ 7,275</u>	<u>\$ 1,614</u>	<u>\$ 39,839</u>
5 Sub-total	\$ 37,048	\$ 34,214	\$ 1,510	\$ 17,107	\$ 3,795	\$ 93,674
6 <u>Other Costs (Legal)</u>						<u>\$ 38,796</u>
7 Total						\$ 132,470
8						
9						
10 <u>Administration</u>	<u>Contract Admin</u>	<u>Data Services</u>	<u>Billing</u>	<u>Total</u>		
11						
12 Average Labor Cost per Hour	\$ 34.08	\$ 43.40	\$ 43.40	\$ 36.09		
13 Annual Hours	153	20	22	195		
14 Cost of Labor	\$ 5,214	\$ 868	\$ 955	\$ 7,037		
15 <u>Labor Overheads @ 74%</u>	<u>\$ 3,859</u>	<u>\$ 642</u>	<u>\$ 707</u>	<u>\$ 5,207</u>		
16 Total	\$ 9,073	\$ 1,510	\$ 1,661	\$ 12,244		
17						
18 <u>RPS</u>	<u>Admin</u>					
19						
20 Average Labor Cost per Hour	\$ 51.68					
21 Annual Hours	40					
22 Cost of Labor	\$ 2,067					
23 <u>Labor Overheads @ 74%</u>	<u>\$ 1,530</u>					
24 Total	\$ 3,597					

Note: Costs are based upon year 2003 experience adjusted to reflect 4 solicitations in 2004 and beyond.